

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 IO-13 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 PRS-01 PA-01

AGR-05 /122 W

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P R 040931Z AUG 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8412

INFO AMEMBASSY BANGKOK

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EAID,EFIN, RP

SUBJECT: PHILIPPINE POSITION ON ADB LENDING RATE AND OTHER ISSUES

REF: STATE 188415

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1. SUMMARY. GOP IS NOT CONVINCED THAT LENDING RATE OF 9.15

PERCENT IS APPROPRIATE. IT WILL SEEK FURTHER DISCUSSION, AND IS NOT RPT NOT PREPARED TO SUPPORT 9.15 RATE AT THIS TIME. SINCE GOP DOES NOT BELIEVE ADB RATES SHOULD BE TIED TO IBRD RATES, IT WILL ALSO NOT RPT NOT SUPPORT AUTOMATIC LENDING RATE ADJUSTMENT THE GOP WILL GO ALONG WITH THE MAJORITY ON THE PROPOSED COMMITMENT CHARGE, AND IS PREPARED TO ACCEPT RETROACTIVE APPLICATION OF ANY NEW LENDING RATE. END SUMMARY.

2. EMBASSY ECON/COM COUNSELOR DISCUSSED ISSUES RAISED REFTEL WITH VICTOR MACALINCAG, ASSISTANT SECRETARY, DEPARTMENT OF FINANCE. WHILE MACALINCAG LISTENED TO POINTS ON THE VARIOUS ISSUES, IT WAS CLEAR FROM DISCUSSION GOP AND SECRETARY OF FINANCE VIRATA LOOK FOR POLICY GUIDANCE ON ADB MATTERS TO PHILIPPINE DIRECTOR, ALEJANDRO MELCHOR. WE SUBSEQUENTLY CALLED ON MELCHOR.

3. MELCHOR WAS IN GENERAL HIGHLY CRITICAL OF ADB MANAGEMENT AND THE MANNER IN WHICH IT HAS HANDLED THESE ISSUES, PARTICULARLY THE LENDING RATE ISSUE. HE FOUND THE STAFF PAPER OF JULY 9, REVIEWING THE BANK'S LENDING RATE AND COMMITMENT CHARGE, TO BE "SLOPPY" AND UNCONVINCING. HE REGARDS THE APPROACH OF MANAGEMENT, ESPECIALLY THAT OF PRESIDENT INOUE, TO BE INFLEXIBLE AND TO INVITE THE SORT OF CONFRONTATION WHICH HAS IN FACT DEVELOPED. MELCHOR THOUGHT THAT THE NATURE OF THE BANK -- WHETHER A DEVELOPMENT INSTITUTION OR A QUASI-COMMERCIAL BANK -- IS CALLED INTO QUESTION BY THE MANAGEMENT POSITION AND SHOULD BE MORE FULLY DISCUSSED.

4. LENDING RATE. MELCHOR SEES LENDING RATE AS THE SINGLE MOST IMPORTANT ISSUE, WITH OTHER QUESTIONS RELATIVELY UNIMPORTANT. HE STATED THAT IT IS NOT RPT NOT CLEAR THAT 9.15 PERCENT IS AN APPROPRIATE LENDING RATE OF EVEN THAT IT REPRESENTS THE COST OF COMMERCIAL BORROWING, AND THAT THE STAFF PAPER IS FAR FROM CONVINCING IN THIS REGARD. HE CITED THE RECENT EXPERIENCE OF GOVERNMENTS WHICH HAVE BORROWED IN EUROPEAN MARKETS AT RATES IN THE 6 PERCENT TO 7 PERCENT RANGE. HE ALSO BELIEVED THAT THE BLEND OF THE COST OF BORROWED FUNDS WITH COST-FREE FUNDS (PAID-IN CAPITAL) SHOULD MORE CLEARLY BE REFLECTED. GENERALLY SPEAKING, THE DEVELOPING MEMBER COUNTRIES (DMC'S) ARE FINDING THAT THE COST OF ADB LOANS IS VERY HIGH, PERHAPS UNNECESSARILY SO.

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5. MELCHOR SAID THAT THE POSITION OF OUTRIGHT OPPOSITION TO THE 9.15 LENDING RATE, WHICH HAS BEEN ASSUMED BY SOME DMC'S RESENTFUL OF THE PROPOSED RATE AND THE MANNER IN WHICH IT HAS BEEN HANDLED, HAS BEEN REJECTED BY THE GOP. HE CLAIMED THAT HE HAS URGED THE GOVERNMENT OF PAKITAN, FOR WHICH HE ACTS AS BANK DIRECTOR, TO MODIFY ITS ORIGINAL UNCOMPROMISING OPPOSITION. THE GOP RECOGNIZES THAT AN UPWARD ADJUSTMENT IN LENDING RATE IS NECESSARY, BUT THAT A "QUANTUM JUMP" OF 40 POINTS NEEDS MORE CONVINCING

JUSTIFICATION THAT SO FAR PRESENTED. THE GOP ALSO FINDS THAT THERE HAS NOT BEEN A CONVINCING CASE MADE FOR A 25-POINT SPREAD BETWEEN IBRD AND ADB RATES, AND THAT THE TRUE COST OF FUNDS SHOULD BE EXAMINED AFTER THEY ARE BORROWED, NOT BEFORE. MELCHOR SAID THAT HE WOULD DO HIS BEST TO PROMOTE DISCUSSION AND COMPROMISE AND TO AVOID CONFRONTATION AT THE BOARD MEETING BUT THAT THE GOP WOULD BE UNABLE TO SUPPORT THE 9.15 LENDING RATE PROPOSAL, BASED ON PRESENT KNOWLEDGE.

6. COMMITMENT CHARGE. MELCHOR THOUGHT THIS A FAR LESS IMPORTANT ISSUE THAN THE LENDING RATE, AND CONSIDERS IT INAPPROPRIATE TO LUMP THE TWO ISSUES TOGETHER. THE GOP, HOWEVER, WILL GO ALONG WITH THE WISHES OF OTHERS. HE THOUGHT THAT A HIGHER RATE OF .45 PERCENT OR .75 PERCENT WOULD PROBABLY PASS.

7. AUTOMATIC LENDING RATE ADJUSTMENT. MELCHOR SAID THAT THE GOP COULD NOT SUPPORT AN AUTOMATIC ADJUSTMENT FORMULA. HE SAW NO NEED TO TIE ADB RATES TO IBRD RATES, AND REITERATED THAT THE LENDING RATE SHOULD REFLECT THE TRUE COST OF BORROWING BY ADB.

8. PREMIUM RATE. MELCHOR UNDERSTANDS THAT CONSIDERATION OF THIS ISSUE IS POSTPONED. HE THOUGHT THIS APPROPRIATE, CONSIDERING ITS RELATIVE UNIMPORTANCE.

9. RETROACTIVITY. MELCHOR INDICATED THAT THE GOP DOES NOT WISH TO MAKE AN ISSUE OVER RETROACTIVITY, AND FOR THE SAKE OF REDUCING SUSPICION THAT DELAYING TACTICS ARE BEING EMPLOYED, IS PREPARED TO ACCEPT RETROACTIVITY TO JUNE 8.

10. COMMENT. MELCHOR APPARENTLY HAS A SUBSTANTIAL DEGREE OF DISCRETION, WHICH MIGHT CONCEIVABLY EXTEND TO ACCEPTANCE OF THE 9.15 RATE. WE CONSIDER IT UNLIKELY THAT HE WILL DO SO, LIMITED OFFICIAL USE

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HOWEVER. END COMMENT.

11. COPY OF THIS TELEGRAM HAS BEEN PROVIDED TO USADB. SULLIVAN

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